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## Stocks Plunge Worldwide on Fears of a U.S. Recession

**By Mark Landler and Heather Timmons**
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FRANKFURT — Fears that the United States is in a recession reverberated around the world on Monday, sending stock markets from Bombay to Frankfurt into a tailspin and puncturing the hopes of many investors that Europe and Asia will be able to sidestep an American downturn.

On a day when United States markets were closed in observance of Martin Luther King's Birthday, the world's eyes were trained nervously on the United States. Investors reacted with what many analysts described as panic to the multiplying signs of weakness in the American economy.

Shares of banks led the decline in many countries, underscoring that the subprime crisis continues to hobble the global financial system. On Monday, a big German state bank, WestLB, said it would report a loss of $1.4 billion in 2007 because of its exposure to deteriorating mortgage assets.

"There is indeed some panic," said Thomas Mayer, the chief European economist at Deutsche Bank in London. "What we're seeing, in Europe and Asia, is that the markets are pricing in a recession."

The sell-off was evenly distributed from East to West, with indexes plunging in London, Paris, Frankfurt, Tokyo, Hong Kong, Seoul and Bombay. The Frankfurt Stock Exchange's Dax index plummeted 7.2 percent, its steepest one-day decline since Sept. 11, 2001. The 7.4 percent drop in Bombay's Sensex index was the second-worst single-day tumble in its history.

Stocks followed suit when markets opened in the Western Hemisphere. Canadian stocks closed down 4.75 percent, and a key market index in Brazil was off 6.6 percent.

And trading Monday in stock index futures, while light and not always a reliable indicator, pointed to a substantial decline when markets reopen on Wall Street. Futures in the Dow Jones industrial average were down 520 points, or more than 4 percent.

Investors were scarcely comforted by President Bush’s announcement on Friday of an economic stimulus package of as much as $145 billion. Mr. Bush’s “shot in the arm,” economists said, did not persuade the rest of the world that the United States will escape a recession, or that it will either.

The turmoil will put even more pressure on the European Central Bank, which has charted a different course from the Federal Reserve by warning that it might raise interest rates to curb inflation, rather than cut them, as the Fed has, to ward off a recession. Mr. Mayer and others predict the bank will be forced into an about-face in coming months.

While Asia has been less buffeted by the credit crisis than Europe, the Bank of China now appears vulnerable, with analysts predicting it will have to write down the value of its American mortgage holdings.

Investors in Asia have been in a state of denial about a possible recession in the United States, said Adrian Mowat, JPMorgan’s chief strategist in Asia. But now, he said, “there’s no debate about it.” The only question, he added is “how long and deep” a recession might be.

In Japan, which may be facing a new recession of its own, most indexes were off by more than 3 percent on Monday and were down another 4 percent in early trading on Tuesday.

The angst about the United States belies the popular theory that Europe and Asia are not as dependent on the American economy as they once were, in part because they trade more with each other. The theory, known as decoupling, has been used to explain why economies like China and Germany have kept growing robustly, even as the United States has slowed.

“The market is not at all convinced about decoupling, and I think the market is probably right,” Mr. Mayer said. “When you look at it more closely, we’re suffering from the same issues.”

The housing market, after a long boom, is cooling off in several countries, notably Britain, Spain and Ireland. That will depress the growth rate in those countries, which are among Europe’s economic pace-setters.

European banks continue to make unwelcome disclosures about write-downs of mortgage assets, even if the losses are not as dire as those reported by Citigroup or Merrill Lynch. Banks loans across Europe are being constrained, according to a recent survey by the European Central Bank.

German banks, in particular, are still haunted by the American subprime mess. WestLB’s troubles came a week after a German property lender, Hypo Real Estate, lost one-third of its market value after it disclosed higher-than-expected losses from the credit crisis.

WestLB, after warning that its 2007 losses would be more than twice its earlier estimate, said its key shareholders, the state of North Rhine-Westphalia and regional savings bank, had agreed to inject to inject 2 billion euros ($2.9 billion) of fresh capital into the bank to stabilize it.

Also on Monday, Commerzbank warned it would make additional write-downs in the fourth quarter of 2007. This caught analysts off guard, since Commerzbank has been fairly upbeat about its exposure.

“The amounts are not so significant,” said Simon Adamson, a banking analyst at CreditSights, an independent research firm in London. “It was more the way the market was caught by surprise.”

Shares of Commerzbank fell 10 percent Monday, Deutsche Bank declined 6.7 percent, Société Générale of France dropped 8 percent, BNP Paribas declined 9.6 percent and the ING Group of the Netherlands was off 10.5 percent.

But the damage extended to the shares of energy companies like BP and Royal Dutch Shell, which dropped on worries that a global economic slowdown would crimp the demand for oil and gas.

“The problem is more deeply rooted in anxiety about the global economy than it is in Germany,” said Boris Boehm, an asset manager at Nordinvest in Hamburg. “People are really afraid. But it’s a good thing because fear, along with action, gets the market to its proper level quickly.”

Those jitters extended to fast-growing markets, like China, and those, like India, that are thought to be relatively insulated from the United States. Shanghai’s Composite Index closed down 5.1 percent, while Hong Kong’s Hang Seng fell 5.5 percent, also the most since Sept. 11, 2001.

Emerging markets have sagged recently, and Monday’s rout may signal a basic shift in sentiment, analysts said. Mr. Mowat of JPMorgan said that it did not matter whether markets were separated by geography or asset class because, he said, “we trade together in corrections.”

No matter how many bridges, roads, and power plants China builds, or how many new cars India sells, a downturn in the United States will ripple across Asia’s economies, experts said.

“If the United States consumer quits buying things, it is going to hurt in Asia,” said Deborah Schuller, an Asia regional credit officer for Moody’s Investors Service. She said most rated corporations there would be able to withstand a nine-month recession in the United States, but if it were to stretch to 12 months or more, there could be some serious problems.

Worries about China are adding to Asia’s uneasiness. Its private property market is in the midst of a shakeout, and scores of small developers have gone out of business. Chinese banks were hard hit on Monday, in part because they hold the bulk of Asia’s exposure to subprime mortgages.

In Japan, stock markets fell to their lowest levels in more than two years on concerns that an American recession could be accompanied by a home-grown one. The Nikkei 225 fell 3.9 percent.

Investors were unnerved by data from the Japanese Finance Ministry, which said that growth was slowing in five of the Japan’s economic regions. The Japanese economy has been weighed down by stagnant housing investment and a poor employment picture outside the major cities.

Australian stocks slid again on Monday, their tenth consecutive day of losses, and the country's longest losing streak for more than 25 years. The S.& P./ASX 200 index dropped 2.9 percent as investors scrambled to get out of companies perceived to have high exposure to debt.

Allco Finance Group, a once-high-flying transport infrastructure fund that was part of the consortium that tried to buy Qantas Airways last year, was among the hardest hit, dropping over 35 percent.

In both Europe and Asia, there may be further shocks, as banks total the fallout from their investments in the American mortgage market. Deutsche Bank, for one, will report its annual results on Feb. 7.

"There's an old saying in the market that banks lead us into recession and banks lead us out," Mr. Boehm of Nordinvest said.